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SUBJECT: ARGENTINA'S 2005 MINING REPORT

REF: A. (04) BUENOS AIRES 2161
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Summary

[1](#)1. Secretary of Mining Jorge Mayoral paid a courtesy call on the Ambassador to present an overview of mining activity in Argentina from the onset of the economic crisis of 2002 to the present. Mayoral highlighted the growth in the number of exploration projects and drew attention to investment opportunities around the country. He discussed the general interest among developing countries, notably China, in acquiring existing mining investments in Argentina to meet their growing demands for metals. Mayoral noted that provincial governments have considerable latitude in establishing local mining governance that complies with national legislation and the national Mining Plan. He also emphasized that communities surrounding mining sites remain interested in the benefits that mining activity can provide, despite the publicity related to environmental concerns that have affected one company's operations in Patagonia. End Summary.

2005 Mining Overview

[1](#)2. The Ambassador received Secretary of Mining Jorge Mayoral on February 15 to discuss Argentina's mining sector activities during the last four years as well as the sector's potential. Mayoral noted that the sector has been a beneficiary of increased commodities prices. These rising prices have helped boost exploration activity, expand existing investments, and increase export values since 2002. The country boasted more than 220 prospecting, exploration, and production sites at the end of 2005, compared to 31 production and exploration projects underway in 2002. Exploratory drilling totaled more than 300,000 meters by the end of 2005, more than doubling the 135,000 meters of drilling in 2002. Investment for 2005 surpassed ARP 2.5 billion (USD 830 million), compared to approximately ARP 486 million (USD 162 million) in 2002. Exported production in 2005 reached ARP 4.7 billion (USD 1.56 billion), almost doubling 2002 exports of ARP 2.4 billion (USD 800 million). Employment in the sector also grew during 2005 to 32,000 direct employees and an estimated 120,000 indirect employees.

[1](#)3. The Ambassador observed that U.S. firms, notably FMC in Salta and Coeur d'Alene in Santa Cruz, have been active participants in the mining sector during the period of recovery since 2002. Mayoral noted that U.S. firms have

developed a strong reputation in providing a wide range of services within the sector. He added that the growth in exploration activity indicated the strength of the sector's potential. He said he would like to see an increased presence of U.S. firms in the higher-risk activities of prospecting and exploration.

Mining Business Model

¶4. CommercialOffs observed that U.S. firms tend to join a mining project when those firms determine they have a competitive advantage, whether in providing services, technology, or financing. In the current model, a "junior" firm, typically from Canada, conducts the initial topographic analysis and digging to begin the prospecting phase of a mine's existence. The junior firm reports its findings of commercially viable deposits after three or four years of prospecting and begins searching for partners to amass the necessary resources for the final stages of exploration and the design and construction of a mine. The exploration phase refines the initial analysis to develop a probable area of marketable ore which is needed to enter the production phase.

¶5. Mayoral said that developing countries with high demands for mineral resources were changing the prevailing business development model in Argentina. (Comment: Although Mayoral referred to "developing countries," the examples he cited all related to Chinese firms' efforts to acquire mining assets in Argentina. End comment.) He cited Shanghai-based A Grade Trading's purchase of HIPARSA's (Rio Negro Patagonian Iron Corporation) iron deposits at Sierra Grande in Rio Negro Province. He also noted China MinMetals' 2005 bid to acquire Canadian mining firm Noranda with rights to an estimated 720 million tons of copper deposits at El Pachon in San Juan Province. According to Mayoral, Noranda accepted the offer but the Canadian government blocked the deal. Mayoral continued that China and other developing countries had expressed interest in acquiring production rights to the country's "next megaproject" at Navidad in Chubut Province. Vancouver-based IMA Exploration estimates the site contains 300 million ounces of silver and 1.2 million tons of lead. (See Reftel B on Chinese investments in Argentina.)

Provincial Laws

¶6. Secretary Mayoral addressed regional differences which promote investment in some provinces, such as Santa Cruz, San Juan, and Catamarca and discourage investment in other provinces, such as Chubut. Mayoral said that "Argentina is not a mining country, but is a country that has mining." He stated the country has an overarching mining framework, but the provinces must establish their own rules to promote and regulate activity in the sector. Mayoral explained that the same principle applied to governance on protecting the environment. He acknowledged that environmental concerns were a key part of the public relations difficulties that the Meridian Gold project had faced at Esquel in Chubut Province (See Reftel A for additional background on the Meridian Gold project.). The company's management did not, according to Mayoral, respond adequately to the community's concerns about the company's use of cyanide in its ore-processing operations. He said that officials in Chubut and residents around Esquel have shown interest in developing the mine but that any company leading the project would need to take measures to avoid repeating Meridian's example.

Comment

¶7. Mining is another part of Argentina's economic recovery that has been a beneficiary of rising commodities prices and a competitive exchange rate. Gold, silver, and copper prices have provided incentives for new exploration projects as well

as for expansion of existing production projects in the provinces of Santa Cruz, San Juan, Catamarca, and Jujuy. Environmental concerns, however, could impede development of megaprojects on the horizon. Communities and environmental defense organizations have warned, for example, that the lead deposits at Navidad could affect groundwater in the area. Similarly, the proposal for removing part of a glacier to mine the gold-silver-copper deposits at Pascua Lama has raised questions about the project's effect on the water supply as well as pollution in northern San Juan Province.

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